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OUTLOOK

FOR THE ECONOMY AND REAL ESTATE

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U.S. Economic and Real Estate Outlook

Aggregate Economy

Overall, 1984 should be a year of strong growth for the U.S. economy with real or inflation-adjusted Gross National Product (GNP) increasing 5 percent above the 1983 level. Interest rates are likely to drop modestly through the third quarter due to relatively weak private credit demand, substantial inflows of loanable funds from abroad, and a slightly more accommodative monetary policy. This easing of interest rates is expected to provide modest gains in residential investment and automobile sales. Housing starts should increase 4 percent to 1.8 million units and automobile sales should rise nearly 10 percent to 10 million units. The slight drop in interest rates along with rising capacity utilization should produce gains in business investment in new equipment although gains in investment in new structures should be modest. Nearly 4 million new jobs should be created with the unemployment rate falling to the mid-7 percent range by the end of the year. The strong growth in the economy is expected to be associated with accelerating inflation rates: the Consumer Price Index (CPI) should rise 5 1/2 percent in 1984 compared to 3.2 percent in 1983.

While it appears that the year as a whole will be normal and healthy, the trend will be toward slower growth; from 5 percent during the first quarter of the year to 3 percent during the final quarter with even slower growth during 1985 and 1986. There is a risk of recession or very slow growth by late 1985 or early 1986, which would make the current recession typical of peacetime recoveries in terms of duration. However, in terms of growth of real GNP the strength of the current recovery is expected to be just 75 percent of the typical peacetime recovery.

The reason for the slower pace of the current recovery is the high demand for loanable funds by the federal government, which is causing interest rates to remain high and thereby dampening investment by people and businesses. Real or inflation-adjusted interest rates are at double their average level during the last 35 years. Moreover, unless credible deficit-reducing legislation is enacted within the next few months, interest rates could rise by the end of this year and through 1985. Private credit demand, which will increase as the economy grows, will come into increasing conflict with the large and expanding credit needs of the federal government. Higher inflation rates during 1984 and 1985 are likely to cause the Federal Reserve to adopt a less accommodative stance by the end of this year.

The Association's testimony concerning the federal government's economic policies is attached.

Real Estate Markets

Sales of existing single-family homes rose 8.5 percent in December to a seasonally-adjusted annual rate of 2,820,000. For 1983 as a whole, 2,717,000 existing single-family homes changed hands, a 36.5 percent increase over the 1982 level. Housing starts in December were virtually unchanged from the November level at a seasonally adjusted annual rate of 1,415,000 units. For all of 1983 a total of 1,715,000 housing units were started, an increase of 61.9 percent over 1982.

With modest declines in mortgage interest rates expected during 1984, resales should increase to 2.94 million units while starts should increase to 1.78 million units. However, increases in mortgage rates during 1985 should cause resales and starts to retreat to 2.63 million units and 1.59 million units, respectively.

Commercial construction should experience a moderate rebound in 1984 which should continue through 1985. Industrial construction, which suffered a severe downturn in 1983, should record a modest gain in 1984 with stronger growth in 1985.

Table 1

U.S. ECONOMIC OUTLOOK

FEBRUARY 1984

	QUARTERS								YEARS				
	Actual		Forecast						Actual		Forecast		
	83:3	83:4	84:1	84:2	84:3	84:4	85:1	85:2	1982	1983	1984	1985	1986
AGGREGATE ECONOMY													
Gross National Product ($ billions)	3,362	3,432	3,527	3,613	3,698	3,784	3,854	3,925	3,073	3,309	3,655	3,960	4,223
Percent Change	11.5	8.6	11.5	10.1	9.7	9.6	7.6	7.6	4.0	7.7	10.5	8.3	6.7
Percent Change (without inflation)	7.6	4.5	5.0	4.3	3.5	2.9	2.2	2.0	-1.9	3.3	5.1	2.5	1.2
Consumption	2.2	6.5	3.3	3.8	3.0	2.0	1.7	1.9	1.4	4.2	4.1	2.2	2.1
Durables	3.7	15.4	4.6	8.3	5.7	2.0	0.4	0.9	-0.9	11.5	8.6	2.2	2.1
Nondurables	3.6	5.6	2.6	2.3	1.5	1.0	1.5	1.6	0.5	3.3	3.2	1.5	1.9
Services	0.6	4.5	3.5	3.4	3.2	2.8	2.4	2.5	2.9	2.8	3.4	2.7	2.2
Residential Investment	36.0	-4.8	11.4	4.7	7.5	0.2	-7.5	-13.2	-15.3	39.6	11.2	-4.7	0.0
Nonresidential Investment	18.6	22.4	5.1	7.0	6.9	6.1	5.7	5.2	-4.7	1.1	10.6	5.7	3.6
Structures	11.1	10.1	4.9	6.7	6.0	5.2	4.9	3.8	1.8	-6.7	5.7	4.6	2.3
Equipment	22.0	27.6	5.2	7.1	7.2	6.5	6.1	5.7	-7.5	4.9	12.6	6.1	4.2
Exports	13.9	2.3	4.7	4.8	4.5	4.8	5.2	5.4	-7.8	-5.7	4.8	5.0	4.2
Imports	18.2	34.0	3.6	8.5	6.6	5.9	6.0	5.9	1.4	7.5	13.3	5.8	3.4
Government Purchases	4.3	-2.7	4.4	10.0	3.4	3.1	1.5	2.7	1.8	0.5	3.5	2.8	1.5
Consumption (% of GNP)	65.4	65.7	65.5	65.4	65.3	65.1	65.1	65.1	65.3	65.9	65.3	65.1	65.7
Residential Investment (% of GNP)	3.7	3.6	3.6	3.6	3.7	3.6	3.5	3.4	2.5	3.4	3.6	3.4	3.3
Nonresidential Investment (% of GNP)	11.0	11.4	11.4	11.5	11.6	11.6	11.7	11.8	11.2	10.9	11.5	11.9	12.2
Inventory Change ($ billions)	8.5	17.7	26.2	20.5	21.7	25.9	31.1	33.5	-24.6	-6.9	23.6	28.6	-10.2
Mfg. Capacity Utilization Rate (%)	77	79	80	81	81	81	81	81	71	75	81	81	80
Auto Sales (millions of units)	9.3	9.9	9.8	10.1	10.3	10.3	10.2	10.2	8.0	9.2	10.1	10.2	10.0
Domestic (% of total)	75.0	72.7	79.9	78.5	75.6	75.6	76.7	76.5	72.3	73.8	77.4	76.0	74.1
Imported (% of total)	25.0	27.2	20.1	21.5	24.4	24.4	23.3	23.5	27.9	26.1	22.6	24.0	25.9
Manufacturing Industrial Production (% change)	22.7	11.7	6.4	5.1	3.5	3.2	2.6	2.2	-8.5	7.9	9.2	2.7	1.4
Common Market	2.6	6.4	-0.5	1.8	1.6	2.2	2.8	3.0	-1.7	1.1	2.2	2.2	1.4
Japan	15.4	5.9	10.9	12.4	7.4	3.1	5.3	5.1	0.4	3.3	9.5	4.9	2.6
Employment(millions)(civilian:household basis)	101.5	102.5	103.5	104.3	105.1	105.7	106.3	106.7	99.5	100.8	104.7	106.9	108.1
Unemployment Rate (%) (civilian)	9.4	8.5	8.1	8.0	7.8	7.7	7.8	7.8	9.7	9.6	7.9	7.9	8.5
Personal Income per Household (average)	34,157	34,972	35,738	36,389	37,105	37,863	38,544	39,225	32,233	33,950	36,774	39,601	42,053
Percent Change -- Year Ago (w/o inflation)	1.7	3.1	3.8	3.4	3.4	2.2	1.8	1.8	-0.8	1.3	3.2	1.8	1.0
Personal Taxes per Household (average)	6,439	6,578	6,613	6,756	6,920	7,082	7,239	7,381	6,426	6,511	6,843	7,462	8,002
Percent Change -- Year Ago (w/o inflation)	-3.3	-1.8	-1.5	-2.1	1.9	1.5	3.4	3.2	-2.3	-2.8	-0.1	3.1	1.8
Percent of Personal Income	18.9	18.8	18.5	18.6	18.6	18.7	18.8	18.8	19.9	19.2	18.5	18.8	19.0
Disposable Income per Household (average)	29,210	29,905	30,696	31,241	31,834	32,461	33,047	33,614	27,206	28,919	31,558	33,921	35,947
Percent Change--Year Ago (w/o inflation)	2.9	4.1	5.0	4.7	3.7	2.5	1.6	1.6	-0.4	2.2	4.0	1.6	0.7
Household Interest Payments (% of total)	9.9	10.2	10.4	10.5	9.9	9.9	9.9	10.0	9.6	9.8	10.2	10.2	10.0
Net Worth per Household (average)	75,022	75,945	77,439	79,106	80,656	81,928	82,941	84,018	66,456	74,272	79,782	84,736	90,918
Percent Change -- Year Ago (w/o inflation)	7.9	4.5	3.3	1.7	2.0	1.7	1.2	0.4	-1.8	7.3	2.2	0.5	1.8
Consumer Price Inflation (CPI)	4.8	4.8	5.7	6.1	6.4	6.5	5.8	5.7	6.2	3.2	5.5	6.0	5.5
Gross National Product Inflation (GNP Deflator)	3.6	3.9	6.2	5.6	6.0	6.5	5.3	5.5	6.0	4.2	5.1	5.7	5.4
Personal Consumption Inflation	4.2	3.0	5.2	5.8	6.2	6.3	5.5	5.6	5.8	3.9	4.9	5.8	5.2
Residential Construction Inflation	8.5	3.7	5.4	6.9	7.2	7.4	6.0	6.1	2.8	2.6	5.6	6.5	5.8
Nonresidential Construction Inflation	0.0	1.2	5.2	6.9	7.7	7.9	6.7	6.8	4.7	-0.7	4.2	7.1	6.2
Producers Price Inflation (WPI)	4.2	3.9	4.1	5.4	6.2	6.1	6.2	6.4	2.0	1.3	4.5	6.2	6.7
Compensation per Manhour (% change)	4.2	5.2	9.0	7.3	7.5	7.6	7.9	7.3	7.9	5.7	6.8	7.5	6.8
Productivity (% change)	3.1	2.8	2.9	2.9	2.0	1.7	1.5	1.1	0.0	3.2	2.9	1.6	0.9
Unit Labor Cost (% change)	1.3	2.4	5.9	4.3	5.4	5.8	6.3	6.1	7.9	2.4	3.8	5.8	5.8
Unit Capital Cost (% change)	6.4	5.7	5.1	4.8	4.6	4.4	4.3	4.2	9.5	6.9	4.7	4.3	4.4
Before Tax Corporate Profits ($ billions)<1>	238	233	240	255	265	273	272	274	190	216	258	274	279
Corporate Tax Liability	85	83	86	92	96	99	97	97	59	76	93	98	94
'Windfall Profits' Tax Receipts	9	9	9	10	10	10	11	11	16	10	10	11	13
After Tax Profits	144	141	145	153	159	164	164	166	115	130	155	165	165
Inventory Valuation Adjustment	-18	-9	-15	-21	-26	-28	-30	-31	-8	-10	-22	-31	-34
Capital Consumption Adjustment	38	46	51	51	51	50	54	54	-1	31	51	55	57
Profits from Current Production (with IVA, CCA)	163	179	181	183	183	186	189	190	106	151	183	190	188
Adjusted for Inflation (83:1 base)	161	174	173	173	171	171	171	170	109	149	172	168	158
Percent Change - Year Ago	46.0	59.4	44.1	22.7	6.5	-1.9	-1.3	-1.9	-8.9	37.2	15.5	-2.2	-6.1
Per Unit of Output (% of GNP)	4.9	5.2	5.1	5.1	5.0	4.9	4.9	4.8	3.4	4.6	5.0	4.8	4.4
Effective Corporate Tax Rate (%)<1>	35	32	33	34	35	35	34	34	37	34	34	34	34
Federal Tax Receipts (Unified basis)	629	599	600	778	687	647	658	850	609	613	678	744	808
Percent of GNP	18.7	17.5	17.0	21.5	18.6	17.1	17.1	21.6	19.8	18.5	18.6	18.3	19.1
Federal Expenditures (Unified basis)	777	829	869	877	834	910	944	956	740	798	872	951	1,048
Percent of GNP	23.1	24.2	24.6	24.3	22.6	24.0	24.5	24.4	24.1	24.1	23.9	24.0	24.8
Surplus or Deficit (Unified basis)	-148	-230	-268	-99	-147	-262	-286	-106	-131	-185	-194	-207	-240
% of GNP	4.4	6.7	7.6	2.7	4.0	6.9	7.4	2.7	4.2	5.6	5.3	5.2	5.7
% of Personal Savings	127.6	186.0	184.6	70.6	104.3	176.4	180.4	64.6	106.1	160.4	134.0	123.7	140.2
% of Net Domestic Savings	56.6	81.0	86.8	32.5	48.3	83.7	89.1	32.9	68.0	77.0	62.8	63.8	75.6

<1> Adjusted to include impact of windfall profits tax on domestic crude oil production.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, and Dick Peach.

Table 2

REAL ESTATE AND FINANCIAL MARKETS

FEBRUARY 1984

	QUARTERS								YEARS				
	Actual		Forecast						Actual		Forecast		
	83:3	83:4	84:1	84:2	84:3	84:4	85:1	85:2	1982	1983	1984	1985	1986
REAL ESTATE MARKETS													
Existing Single-Family Home Sales (thousands)	2,740	2,677	2,807	2,931	3 062	2,961	2,764	2,687	1,990	2 717	2,940	2,627	2,710
Percent Change - Year Ago	44.7	25.5	8.7	2.6	11.8	10.6	-1.5	-8.3	-17.6	36.5	8.2	-10.7	3.2
Dollar Volume (billions)	229.9	222.7	238.6	251.6	268.5	253.4	243.3	241.0	160.2	225.8	253.0	235.4	255.1
Existing Home Prices - Median ($1000's)	71.1	70.2	72.4	73.6	75.6	74.1	76.5	78.1	67.8	70.3	73.9	78.2	82.5
Percent Change - Year Ago	3.8	4.0	5.8	5.5	6.4	5.6	5.7	6.1	2.1	3.7	5.1	5.7	5.5
Monthly Mortgage Payment (P&I, 80%, 30 yr.)	651	640	657	648	658	657	708	730	754	635	655	732	750
Percent of Household Income	23	22	22	21	21	21	22	22	28	22	21	22	21
NAR Affordability Index	82.0	85.2	84.3	86.2	86.8	89.4	87.0	85.7	68.4	82.2	86.7	86.1	87.9
New Single-Family Home Sales (thousands)	578	626	620	654	682	654	614	585	417	616	653	570	585
Percent Change - Year Ago	41.5	20.8	2.5	0.2	18.0	4.5	-1.0	-10.5	-4.4	47.5	6.0	-12.7	2.6
New Home Prices - Median ($1000's)	77.6	76.1	77.3	78.8	80.4	82.1	83.5	84.9	69.3	75.5	79.6	85.7	91.6
Percent Change - Year Ago	11.5	6.2	5.5	5.1	3.6	7.8	8.0	7.8	0.7	8.9	5.5	7.6	6.9
New Home Prices--Mean ($1000's, Quality Adjusted)	90.7	89.5	92.5	94.1	95.9	95.5	98.8	100.2	87.8	89.5	94.5	100.5	106.2
Percent Change - Year Ago	3.5	3.5	3.9	6.1	5.7	6.7	6.8	6.5	2.8	1.9	5.6	6.3	5.7
New Mortgage Commitments ($ billions)	192.0	177.3	179.4	177.4	180.5	182.5	177.9	173.7	64.8	166.7	179.9	178.6	207.5
Percent Change - Year Ago	236.2	87.7	24.9	15.2	-6.0	2.9	-0.8	-2.0	8.1	157.2	7.9	-0.8	16.2
Mortgage Debt Outstanding ($ billions)	1,774	1,826	1,880	1,938	2,000	2,061	2,125	2,189	1,629	1,752	1,970	2,223	2,170
Homeowners' Equity ($ billions)	2,622	2,667	2,710	2,750	2,777	2,841	2,908	2,973	2,396	2,577	2,770	3,003	3,251
Housing Inventory (millions)	92.0	92.4	92.8	93.2	93.6	94.0	94.4	94.8	90.6	91.8	93.4	95.0	96.4
Private Housing Starts (thousands)	1,791	1,692	1,773	1,804	1,817	1,730	1,653	1,579	1,059	1,715	1,781	1,586	1,644
Single-Family	1,066	1,024	1,094	1,116	1,131	1,078	1,013	954	663	1,068	1,105	959	997
Percent of Total	59.5	60.5	61.7	61.9	62.3	62.3	61.3	60.4	62.8	62.3	62.0	60.5	60.6
Multi-Family	725	668	680	688	686	652	639	625	395	647	676	627	647
Percent of Total	40.5	39.5	38.3	38.1	37.7	37.7	38.7	39.6	37.2	37.7	38.0	39.5	39.4
Mobile Home Shipments (thousands)	302	300	307	313	318	313	311	304	239	296	313	304	311
Rental Vacancy Rate (%)	5.8	5.7	5.6	5.6	5.5	5.5	5.5	5.5	5.3	5.7	5.5	5.5	5.4
Unsold New Homes (% of sales)	47.4	47.1	45.9	45.8	45.6	46.6	48.9	51.3	65.2	43.8	46.0	51.8	56.5
Office Vacancy Rate (%)<1>	11.7	12.4	11.6	11.2	10.6	10.0	9.5	9.0	8.0	11.7	10.8	9.0	8.6
Industrial Vacancy Rate (%)<1>	5.1	4.9	5.1	4.9	4.7	4.6	4.5	4.4	4.4	4.9	4.8	4.4	4.1
New Commercial Building Construction (% Ch Value)	26.4	5.2	11.1	19.1	19.9	17.8	14.5	13.0	9.0	-3.4	12.1	14.9	10.6
New Industrial Building Construction (% Ch Value)	2.0	-50.0	36.3	26.6	29.5	28.0	19.4	17.3	2.5	-25.2	1.3	20.1	13.8
FINANCIAL MARKETS													
Money Supply													
M1 (% change)(FED Target 4-8%)	9.2	2.1	8.3	8.7	6.0	4.9	4.2	4.4	6.5	10.9	7.0	5.3	5.5
M2 (% change)(FED Target 6-9%)	8.1	7.2	10.4	10.1	8.8	7.8	6.7	6.6	9.4	12.4	9.1	7.5	7.7
Monetary Base (% change)	5.9	8.6	10.4	7.7	6.6	7.0	5.8	6.4	6.7	9.2	8.4	6.5	6.1
Flow of Funds													
Supply													
Personal Savings	116	124	145	141	141	149	158	165	125	113	144	168	171
Savings Rate	4.9	5.1	5.8	5.5	5.4	5.6	5.8	6.0	5.8	4.9	5.6	6.0	5.7
Net Business Savings	90	103	103	102	101	101	102	101	37	78	102	100	90
State + Local Govt. Savings	56	57	61	62	63	63	60	58	31	51	62	58	55
Foreign Funds(current account deficit)	48	62	55	59	62	65	69	72	15	41	60	72	80
Demand													
Consumer Installment Debt(net change)	42	42	39	38	37	35	33	32	13	37	37	33	32
Commercial+Industrial Loans(net change)	3	13	-2	24	47	69	80	59	23	-3	34	43	-20
Home Mortgage Debt(net change)	123	116	94	91	92	82	83	79	-7	92	90	82	94
Federal Deficit	148	230	268	99	147	262	286	106	131	185	194	207	240
Selected Interest Rates (Percent)													
Mortgage Commitment Rate (weighted average)	13.5	13.4	13.4	12.9	12.8	13.0	13.6	13.8	16.6	13.4	13.0	13.8	13.4
30 Year,Fixed-Rate	14.2	14.1	14.1	13.6	13.5	13.7	14.3	14.5	17.3	14.1	13.7	14.5	14.1
1 Year ARM	12.6	12.3	12.2	12.1	12.0	12.5	13.0	13.2	14.6	11.9	12.2	13.1	12.7
Real Mortgage Rate (weighted average)	9.9	9.5	7.1	7.3	6.8	6.5	8.4	8.2	12.2	9.3	6.9	8.2	8.2
Corporate Bond Rate (AAA)	12.3	12.4	12.4	12.2	12.1	12.1	12.4	12.6	13.8	12.0	12.2	12.6	12.0
Government Bond Rate	11.3	11.2	11.0	10.8	10.7	11.1	11.4	11.6	13.0	10.6	10.9	11.5	10.8
Real Long-term Government Bond Rate	7.7	7.3	4.8	5.2	4.7	4.6	6.2	6.1	8.6	6.6	4.8	5.9	5.6
Federal Funds Rate	9.5	9.4	9.5	9.3	9.1	9.7	10.5	10.9	12.3	9.1	9.4	10.7	10.4
3 Month Treasury Bill Rate	9.1	8.8	8.9	8.8	8.6	9.0	9.5	9.8	10.6	8.6	8.8	9.7	9.5
Real 3 Month T-Bill Rate	5.6	4.3	2.6	3.2	2.6	2.5	4.3	4.3	6.2	4.5	2.7	4.2	4.4
1 Year Treasury Bill Rate	10.3	10.0	9.9	9.8	9.7	10.2	10.7	10.9	12.3	9.6	9.9	10.8	10.4
Commercial Paper Rate	9.3	9.2	9.1	9.2	8.9	9.5	10.1	10.5	11.9	8.9	9.2	10.4	10.1
Rate on Money Market Fund Shares	9.5	9.3	9.2	9.3	9.1	9.7	10.4	10.7	12.1	9.0	9.3	10.6	10.2
Prime Rate	10.8	11.0	11.0	11.0	10.6	11.0	11.6	12.1	14.9	10.8	10.9	11.9	11.5

<1> Historical data courtesy of Coldwell Banker.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, and Dick Peach.